

CITY OF MALVERN
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2014

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City of Malvern

Officials

<u>Name</u>	<u>Title</u> (Before January 2014)	<u>Term Expires</u>
Toni Michel	Mayor	January 2014
Jessica Winstead	Council Member	January 2014
Doug Shere	Council Member	January 2016
Dwain Pelzer	Council Member	January 2016
Quincy Hunt	Council Member	January 2014
Lantz Powels	Council Member	January 2016
Shari Mueller	City Clerk	Indefinite
Kathy Anderson	Deput Clerk	Indefinite
T.J. Patterman	Attorney	Indefinite
(After January 2014)		
Michael K. Blackburn	Mayor	January 2016
Doug Shere	Council Member	January 2018
Dwain Pelzer	Council Member	January 2016
Katelyn Phelps	Council Member	January 2018
Fred Moreau	Council Member	January 2018
Brian Jaschen	Council Member	January 2016
Shari Mueller	City Clerk	Indefinite
Kathy Anderson	Deput Clerk	Indefinite
T.J. Patterman	Attorney	Indefinite

City of Malvern



Diane McGrain, CPA
Jim Menard, CPA

October 16, 2014

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Malvern, Iowa, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Continued...

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Independent Auditor's Report
City of Malvern

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Malvern as of June 30, 2014, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Malvern's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the nine years ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 11, and 25 through 27 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 16, 2014 on our consideration of the City of Malvern's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Malvern's internal control over financial reporting and compliance.

Schroer & Associates, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Malvern provides this Management's Discussion and analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 87.9%, or approximately \$672,000, from fiscal 2013 to fiscal 2014. Operating grants increased approximately \$10,000, and bond proceeds increased \$550,000.

Disbursements increased 10.6%, or approximately \$78,000, in fiscal 2014 from fiscal 2013. Community and economic development disbursements increased by approximately \$94,000.

The City's total cash basis net position increased by 171.5%, or \$562,893, from June 30, 2013 to June 30, 2014. Of this amount, the assets of the governmental activities increased \$624,584, and business type activities decreased by \$61,691.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-Wide Financial Statement

One of the most important questions asked about the City's finances is, "is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- ❖ Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- ❖ Business Type Activities include the water and sanitary sewer system. This activity is financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basis services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt-Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operation and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds considered to be major funds of the City.

The required financial statements for proprietary funds include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from \$165 thousand to \$789 thousand. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service	\$ 131	\$ 119
Operating grants, contributions and restricted interest	176	166
Capital grants, contributions and restricted interest	49	
General receipts:		
Property tax	433	394
Tax increment financing	8	7
Local option sales tax	88	76
Bond proceeds	550	-
Miscellaneous	1	2
Total receipts	<u>1,436</u>	<u>764</u>
Disbursements:		
Public safety	64	68
Public works	223	230
Culture and recreation	178	194
Community and economic development	103	9
General government	124	113
Debt service	<u>120</u>	<u>120</u>
Total disbursements	<u>812</u>	<u>734</u>
Change in cash basis net position	624	30
Cash basis net position beginning of year	<u>165</u>	<u>135</u>
Cash basis net position end of year	<u>\$ 789</u>	<u>\$ 165</u>

The City's total receipts for governmental activities increased by 87.9%, or \$672,000. The total cost of all programs and services increased by approximately 10.6%, or \$78,000. The increase in receipts was primarily due to bond proceeds.

The cost of all governmental activities this year was \$812 thousand compared to \$734 thousand last year. The City spent more monies on community and economic development.

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service		
Water	\$ 167	\$ 165
Sewer	123	126
General receipts:		
Miscellaneous	5	3
Total receipts	<u>296</u>	<u>294</u>
Disbursements:		
Water	222	155
Sewer	<u>136</u>	<u>133</u>
Total disbursements	<u>358</u>	<u>288</u>
Change in cash basis net position	(62)	6
Cash basis net position beginning of year	<u>164</u>	<u>158</u>
Cash basis net position end of year	<u>\$ 102</u>	<u>\$ 164</u>

Total business type activities receipts for the fiscal year were \$296 thousand compared to \$294 thousand last year. The cash balance decreased by \$62 thousand.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Malvern completed the year, its governmental funds reported a combined fund balance of \$789,316, an increase of \$624,584 from last year's total of \$164,732. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- ❖ The General Fund cash balance increased \$85,137 from the prior of \$17,170 to \$102,307 due to an interfund transfer from Local Option Sales Tax Fund, grant funds and additional street revenue.
- ❖ The Road Use Tax Fund increased \$6,922.
- ❖ Local Option Sales Tax Fund increased \$18,461.
- ❖ The Debt Service Fund cash balance increased \$7,567 during the fiscal year.
- ❖ The Capital Projects Fund cash balance increased \$505,834 due to bond proceeds.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- ❖ The Enterprise, Sewer Fund cash balance decreased by \$12,750 to (\$18,868) during the fiscal year. \$31,468 is restricted for the sewer sinking fund.
- ❖ The Enterprise, Water Fund cash balance decreased by \$48,941 to \$120,697 during the fiscal year due to the City purchasing land at \$24,000 that was required by the DNR along with additional maintenance and repairs that were not budgeted on the East Well in the amount of \$15,234. Also, exterior and interior cleaning of the water tower was not budgeted, but the Council approved having it done in FY2014.

BUDGETARY HIGHLIGHTS

Over the course of the year, the budget was not exceeded. There was one budget amendment during the year that increased revenues \$269,284 to allow for CDBG Grants Revitalization/Housing funds, demo grant funds, CDBG/DNR Grant Reimbursement, a Park grant, and a CDBG Housing Refund. The budget amendment also increased disbursements by \$168,671 to allow for grant related expenditures, unforeseen general government expenses, business type expenses for purchase of property, and maintenance and repairs.

DEBT ADMINISTRATION

At June 30, 2014, the City had \$1,197,126 in bonds and other long-term debt, compared to approximately \$790,627 last year as shown below:

Outstanding Debt at Year End (Expressed in Thousands)			
		Year Ended June 30,	
		2014	2013
General obligation notes	\$	752	\$ 308
Revenue notes		445	483
	\$	1197	\$ 791

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt was \$752,000 at fiscal year end, which is significantly below the City's constitutional debt limit of \$2.3 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Malvern's elected and appointed officials and citizens considered many factors when setting the fiscal year 2015 budget, tax rates and fees that will be charged for various City activities. The City increased the tax rates approximately 0.00773 from the previous year.

These indicators were taken into account when adopting the budget for fiscal year 2015. The debt service levy was increased from 15.94049 in 2014 to 17.05496 in 2015, for a difference of 1.11447.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Shari Mueller, City Clerk, 107 E. 4th Street, Malvern, Iowa.

Basic Financial Statements

City of Malvern
Cash Basis Statement of Activities and Net Position
As of and for the year ended June 30, 2014

	Program Receipts				Net (Disbursement) Receipts and Changes in Cash Basis Net Position			Component Units	
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total	Malvern Friends of the Library	Malvern Volunteer Fire Department
Functions/Programs:									
Governmental activities:									
Public safety	\$ 63,581	466	-	-	(63,115)	-	(63,115)		
Public works	223,104	94,836	115,868	-	(12,400)	-	(12,400)		
Culture and recreation	178,795	32,751	41,465	-	(104,579)	-	(104,579)		
Community and economic development	102,824	-	-	-	(102,824)	-	(102,824)		
General government	123,525	3,020	2,404	-	(118,101)	-	(118,101)		
Debt service	119,802	-	15,861	-	(103,941)	-	(103,941)		
Capital projects	-	-	-	48,694	48,694	-	48,694		
Total governmental activities	811,631	131,073	175,598	48,694	(456,266)	-	(456,266)		
Business type activities:									
Water	304,592	167,252	-	-	-	(137,340)	(137,340)		
Sewer	53,698	123,325	-	-	-	69,627	69,627		
Total business type activities	358,290	290,577	-	-	-	(67,713)	(67,713)		
Total Primary Government	\$ 1,169,921	421,650	175,598	48,694	(456,266)	(67,713)	(523,979)		
Component Units:									
Malvern Friends of the Library	\$ 15,968	-	12,142	-				(3,826)	-
Malvern Volunteer Fire Department	27,980	-	33,376	-				-	5,396
Total Component Units	\$ 43,948	-	45,518	-				(3,826)	5,396
General Receipts:									
Property tax levied for:									
General purposes					281,528	-	281,528	-	-
Employee benefits					40,390	-	40,390	-	-
Debt service					111,508	-	111,508	-	-
Tax increment financing collections					7,725	-	7,725	-	-
Local option sales tax					88,461	-	88,461	-	-
Bond proceeds					550,000	-	550,000	-	-
Unrestricted interest on investments					453	900	1,353	-	-
Miscellaneous					785	5,122	5,907	-	-
Total general receipts and transfers					1,080,850	6,022	1,086,872	-	-
Change in cash basis net position					624,584	(61,691)	562,893	(3,826)	5,396
Cash basis net position beginning of year					164,732	163,520	328,252	32,637	68,802
Cash basis net position end of year					\$ 789,316	101,829	891,145	28,811	74,198
Cash Basis Net Position									
Restricted:									
Expendable:									
Streets					\$ 114,928	-	114,928	-	-
Capital projects					458,242	-	458,242	-	-
Property tax relief					55,743	-	55,743	-	-
Debt service					14,042	31,468	45,510	-	-
Other purposes					44,054	-	44,054	-	-
Unrestricted					102,307	70,361	172,668	28,811	74,198
Total cash basis net position	\$ 789,316				101,829		891,145	28,811	74,198

See notes to financial statements

City of Malvern
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Governmental Funds
As of and for the year ended June 30, 2014

		Special Revenue				Other	
		Road	Local	Debt	Capital	Nonmajor	
	General	Use	Option	Service	Projects	Governmental	Total
		Tax	Sales Tax			Funds	
Receipts							
Property tax	\$ 271,558	-	-	107,631	-	38,959	418,148
Tax increment financing	-	-	-	-	-	7,725	7,725
Other city tax	9,970	-	88,461	3,877	-	1,431	103,739
Licenses and permits	1,661	-	-	-	-	-	1,661
Use of money and property	13,452	-	-	-	-	-	13,452
Intergovernmental	12,971	115,868	6,000	11,000	44,209	-	190,048
Charges for service	129,412	-	-	-	-	-	129,412
Special assessments	-	-	-	4,861	-	-	4,861
Miscellaneous	11,893	-	-	-	4,485	791	17,169
Total receipts	450,917	115,868	94,461	127,369	48,694	48,906	886,215
Disbursements							
Operating:							
Public safety	63,581	-	-	-	-	-	63,581
Public works	96,864	108,946	-	-	-	17,294	223,104
Culture and recreation	161,099	-	6,000	-	-	11,696	178,795
Community and economic development	2,239	-	-	-	92,860	7,725	102,824
General government	111,997	-	-	-	-	11,528	123,525
Debt service	-	-	-	119,802	-	-	119,802
Total disbursements	435,780	108,946	6,000	119,802	92,860	48,243	811,631
Excess (deficiency) of receipts over (under) disbursements	15,137	6,922	88,461	7,567	(44,166)	663	74,584
Other financing sources (uses):							
Bond proceeds	-	-	-	-	550,000	-	550,000
Operating transfers in	70,000	-	-	-	-	-	70,000
Operating transfers out	-	-	(70,000)	-	-	-	(70,000)
Total other financing sources (uses)	70,000	-	(70,000)	-	550,000	-	550,000
Change in cash balances	85,137	6,922	18,461	7,567	505,834	663	624,584
Cash balances beginning of year	17,170	108,006	37,282	6,475	(47,592)	43,391	164,732
Cash balances end of year	\$ 102,307	114,928	55,743	14,042	458,242	44,054	789,316
Cash Basis Fund Balances							
Restricted for:							
Streets	\$ -	114,928	-	-	-	-	114,928
Local option sales tax	-	-	55,743	-	-	-	55,743
Debt service	-	-	-	14,042	-	-	14,042
Capital projects	-	-	-	-	458,242	-	458,242
Other purposes	-	-	-	-	-	44,054	44,054
Unassigned	102,307	-	-	-	-	-	102,307
Total cash basis fund balances	\$ 102,307	114,928	55,743	14,042	458,242	44,054	789,316

See notes to financial statements

City of Malvern
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2014

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 167,252	123,325	290,577
Operating disbursements:			
Business type activities	221,765	82,827	304,592
Excess (deficiency) of operating receipts over (under) operating disbursements	(54,513)	40,498	(14,015)
Non-operating receipts (disbursements):			
Interest on investments	450	450	900
Miscellaneous	5,122	-	5,122
Debt service	-	(53,698)	(53,698)
Total non-operating receipts (disbursements)	5,572	(53,248)	(47,676)
Change in cash balances	(48,941)	(12,750)	(61,691)
Cash balances beginning of year	169,638	(6,118)	163,520
Cash balances end of year	\$ 120,697	(18,868)	101,829
Cash Basis Fund Balances			
Restricted for debt service	\$ -	31,468	31,468
Unrestricted	120,697	(50,336)	70,361
Total cash basis fund balances	\$ 120,697	(18,868)	101,829

See notes to financial statements

City of Malvern
Notes to Financial Statements
June 30, 2014

NOTE (1) Summary of Significant Accounting Policies

The City of Malvern is a political subdivision of the State of Iowa located in Mills County. It was first incorporated in 1869 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Malvern has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Malvern (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Discretely Presented Component Unit

Malvern Friends of the Library (Friends) has been incorporated under the provisions of the Iowa Nonprofit Corporation Act to operate exclusively for charitable purposes for the enhancement and improvement of the Malvern Public Library. In accordance with criteria set forth by the Governmental Accounting Standards Board, Friends meets the definition of a component unit which should be discretely presented. Based on these criteria, the economic resources received or held by Friends are substantially for the direct benefit of the City of Malvern Library.

The Malvern Volunteer Fire Department (Department) has been incorporated under the Iowa Nonprofit Corporation Act to protect human life and property through fighting fires and providing community education in fire prevention and first aid/safety practices. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Department meets the definition of a component unit which should be discretely presented. Based on these criteria, the economic resources received or help by the Department are substantially for the direct benefit of the City of Malvern.

City of Malvern
Notes to Financial Statements
June 30, 2014

NOTE (1) Summary of Significant Accounting Policies - Continued

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Mills County Assessor's Conference Board, Mills County Emergency Management Commission and Mills County E911 Board.

B. Basis of Presentation

Government-wide Financial Statements - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Expendable restricted net position result when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding category. Unrestricted net position often have constraints on cash balances imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

City of Malvern
Notes to Financial Statements
June 30, 2014

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for receipts required from the tax authorized by referendum and used for property tax relief.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Malvern maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

City of Malvern
Notes to Financial Statements
June 30, 2014

NOTE (1) Summary of Significant Accounting Policies - Continued

C. Measurement Focus and Basis of Accounting - Continued

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

F. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2012, to compute the amounts which became liens on property on July 1, 2013. These taxes were due and payable in two installments on September 30, 2013 and March 31, 2014, at the Mills County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

City of Malvern
Notes to Financial Statements
June 30, 2014

NOTE (2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's cash, which consists of cash in bank and certificates of deposit, totaled \$891,145.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board (GASB) No. 3, as amended by Statement No. 40.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

NOTE (3) Notes Payable

Annual debt service requirements to maturity of general obligation notes are as follows:

Year Ended June 30,	General Obligation Notes		Revenue Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 140,259	24,898	39,000	13,350	179,259	38,248
2016	139,675	17,141	40,000	12,180	179,675	29,321
2017	81,195	12,270	41,000	10,980	122,195	23,250
2018	56,000	9,592	42,000	9,750	98,000	19,342
2019	57,000	8,167	44,000	8,490	101,000	16,657
2020-2024	278,000	19,857	239,000	21,960	517,000	41,817
	<u>\$ 752,129</u>	<u>91,925</u>	<u>445,000</u>	<u>76,710</u>	<u>1,197,129</u>	<u>168,635</u>

Interest costs paid during the year ended June 30, 2014 totaled \$28,791.

City of Malvern
Notes to Financial Statements
June 30, 2014

NOTE (3) Notes Payable - Continued

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

The City has a general obligation debt limit of approximately \$2,300,000 which was not exceeded during the year ended June 30, 2014.

Revenue Notes – The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$799,000 in sewer revenue notes issued in June 2004. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2024. The annual principal and interest payments on the notes were 130% of net receipts. The total principal and interest remaining to be paid is \$521,710. For the current year, principal and interest paid and total customer net receipts were \$52,490 and \$40,498, respectively.

The resolutions providing for the issuance of the sewer revenue notes include the following provisions:

- a) The notes will only be redeemed from the future earnings of the sewer enterprise activity, and the note holders hold a lien on the future earnings of the fund.
- b) Sufficient monthly transfers shall be made to the sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.

The City has complied with the provisions of the resolution. However, net receipts were insufficient to cover debt service payments and operations resulting in a negative unrestricted fund balance.

NOTE (4) Lease Agreement

The City leases a copy machine under an operating lease agreement. Rent expense for the year ended June 30, 2014 was \$1,440. The future minimum required minimum lease payments are as follows:

Year ending June 30,	Amount
2015	\$ 1,440
2016	1,440
2017	240
	<u>\$ 3,120</u>

City of Malvern
Notes to Financial Statements
June 30, 2014

NOTE (5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of annual covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2014, 2013, and 2012, were \$16,725, \$15,887, and \$13,110, respectively, equal to the required contributions for each year.

NOTE (6) Compensated Absences

City employees accumulate vacation days for subsequent use or for payment at the end of the anniversary year during which it was required to be taken. These accumulations are not recognized as disbursements by the City until used or paid. Employees are entitled to payment of accrued vacation upon termination, retirement, death, or disability. The City's approximate liability for earned vacation benefits payable to employees at June 30, 2014, primarily relating to the General Fund is \$4,805. This liability is computed on rates of pay effective as of June 30, 2014.

NOTE (7) Other Postemployment Benefits (OPEB)

The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 3 active and 0 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with Wellmark. The same premium is paid for retirees under age 65 for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premium for the City and plan members is \$498 for single coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2014, there were no plan members eligible for benefits.

City of Malvern
Notes to Financial Statements
June 30, 2014

NOTE (8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Local Option Sales Tax	\$ <u>70,000</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse resources.

NOTE (9) Commitments

Law Enforcement Contract

The City has contracted with Mills County, Iowa whereby the County provides law enforcement services within the City of Malvern through the office of the Sheriff of Mills County, Iowa through June 30, 2015 for an annual amount of \$17,172.

Administrative Services Contract

The City renewed its agreement with PeopleService, whereby the City engages PeopleService to manage, operate, and maintain the City's water and wastewater utility system. The Company in turn refunds to the City all cost savings on non-payroll operating expenses. The monthly contracted fee is \$8,741, plus \$2.80 per account bill, with an annual adjustment equaling the change in Consumer Price Index for All Urban Consumers (CPI-U) plus one percent, effective through June 30, 2016.

As required in this agreement, PeopleService computes, bills, collects and transmits to the City the revenues from water, sewer and landfill usage.

Rescue Services Contract

Malvern Volunteer Rescue, Inc. is a separate entity established to provide rescue services. In July 1989, the City signed an ambulance service contract with the Organization, which has been extended for successive one year terms. The Organization is required to provide 24 hour phone service, all insurance, maintenance, repairs and supplies for City owned rescue unit vehicles and trained personnel to respond to rescue calls. The City is required to pay the Organization \$1,104 per month for these services.

Communication Services

The City has a 28E agreement with Mills County for the purpose of providing emergency communication services, effective through June 30, 2015. The City's share of the support is \$9,136 for the year ending June 30, 2015.

City of Malvern
Notes to Financial Statements
June 30, 2014

NOTE (10) Construction Commitments

At June 30, 2014, the City had the following construction commitments:

	Estimated Contract Amount	Paid to Date	Remaining Commitment	Retainage Payable
CDBG Downtown Revitalization Engineering	\$ 128,675	81,095	47,580	-

NOTE (11) Risk Management

The City of Malvern is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE (12) Deficit Fund Balances

At June 30, 2014, the City had the following deficit fund balance:

Enterprise, Sewer Fund	\$ 18,868
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The deficit will be eliminated with transfers and increases in rates when appropriate.

NOTE (13) Subsequent Events

In October 2013, the State Auditor began a fraud investigation audit on the library records. The State Auditor's report was released July 17, 2014, identifying \$32,903 of improper and unsupported disbursements. The loss due to fraud will be submitted to insurance.

NOTE (14) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

Other Information

City of Malvern
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds
 Other Information
 Year ended June 30, 2014

	Governmental Funds Actual	Proprietary Funds Actual	Net	Budgeted Amounts		Budget to Net Variance
				Original	Final	
Receipts						
Property tax	\$ 418,148	-	418,148	410,074	410,074	8,074
Tax increment financing	7,725	-	7,725	8,189	8,189	(464)
Other city tax	103,739	-	103,739	89,983	89,983	13,756
Licenses and permits	1,661	-	1,661	2,750	2,750	(1,089)
Use of money and property	13,452	900	14,352	2,350	2,350	12,002
Intergovernmental	190,048	-	190,048	166,046	435,330	(245,282)
Charges for services	129,412	290,577	419,989	446,818	446,818	(26,829)
Special assessments	4,861	-	4,861	-	-	4,861
Miscellaneous	17,169	5,122	22,291	-	-	22,291
Total receipts	886,215	296,599	1,182,814	1,126,210	1,395,494	(212,680)
Disbursements						
Public safety	63,581	-	63,581	64,876	64,876	1,295
Public works	223,104	-	223,104	245,200	245,200	22,096
Culture and recreation	178,795	-	178,795	190,291	195,291	16,496
Community and economic development	102,824	-	102,824	10,439	126,192	23,368
General government	123,525	-	123,525	120,715	126,133	2,608
Debt service	119,802	-	119,802	119,802	119,802	-
Business type activities	-	358,290	358,290	375,318	417,818	59,528
Total disbursements	811,631	358,290	1,169,921	1,126,641	1,295,312	125,391
Excess of receipts over disbursements	74,584	(61,691)	12,893	(431)	100,182	(87,289)
Other financing sources, net:	550,000	-	550,000	11,000	336,000	214,000
Excess of receipts and other financing sources over disbursements and other financing uses	624,584	(61,691)	562,893	10,569	436,182	126,711
Balances beginning of year	164,732	163,520	328,252	308,174	308,174	20,078
Balances end of year	\$ 789,316	101,829	891,145	318,743	744,356	146,789

See accompanying independent auditors' report

City of Malvern
Notes to Other Information – Budgetary Reporting
June 30, 2014

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the discretely presented component units, Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon major classes of disbursements known as functions, not by fund or fund type. These functions are: public safety, public works, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted revenues by \$269,284 and budgeted disbursements by \$168,671. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements did not exceed the amounts budgeted.

Supplementary Information

City of Malvern
Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2014

	Special Revenue			Total
	Employee Benefits	Urban Renewal Tax Increment	Library Trust Memorial	
Receipts				
Property tax	\$ 38,959	-	-	38,959
Tax increment financing collections	-	7,725	-	7,725
Other city tax	1,431	-	-	1,431
Intergovernmental	-	-	-	-
Miscellaneous	-	-	791	791
Total receipts	40,390	7,725	791	48,906
Disbursements:				
Operating				
Public works	17,294	-	-	17,294
Culture and recreation	10,620	-	1,076	11,696
Community and economic development	-	7,725	-	7,725
General government	11,528	-	-	11,528
Total disbursements	39,442	7,725	1,076	48,243
Change in cash balances	948	-	(285)	663
Cash balances beginning of year	26,022	16,039	1,330	43,391
Cash balances end of year	\$ 26,970	16,039	1,045	44,054
Cash Basis Fund Balances				
Restricted for other purposes	\$ 26,970	16,039	1,045	44,054

See accompanying independent auditors' report

City of Malvern
Combining Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
General Fund
As of and for the year ended June 30, 2014

	General	Liberty Memorial Sinking	Park Sinking	Library Building	Total
Receipts					
Property tax	\$ 271,558	-	-	-	271,558
Other city tax	9,970	-	-	-	9,970
Licenses and fees	1,661	-	-	-	1,661
Use of money and property	13,371	81	-	-	13,452
Intergovernmental	1,978	-	-	10,993	12,971
Charges for services	129,412	-	-	-	129,412
Miscellaneous	11,893	-	-	-	11,893
Total receipts	439,843	81	-	10,993	450,917
Disbursements:					
Operating:					
Public safety	63,581	-	-	-	63,581
Public works	96,864	-	-	-	96,864
Culture and recreation	161,099	-	-	-	161,099
Community and economic development	2,239	-	-	-	2,239
General government	111,997	-	-	-	111,997
Total disbursements	435,780	-	-	-	435,780
Excess of receipts over disbursements	4,063	81	-	10,993	15,137
Other financing sources (uses):					
Operating transfers in	70,000	-	13,000	-	83,000
Operating transfers out	(13,000)	-	-	-	(13,000)
Total other financing sources	57,000	-	13,000	-	70,000
Change in cash balances	61,063	81	13,000	10,993	85,137
Cash balances beginning of year	(41,959)	6,983	7,101	45,045	17,170
Cash balances end of year	\$ 19,104	7,064	20,101	56,038	102,307

See accompanying independent auditors' report

Schedule 3

City of Malvern
Schedule of Indebtedness
Year ended June 30, 2014

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General obligation notes:									
Downtown sidewalk improvement	Feb 1, 2001	5.00%	\$ 640,000	\$ 166,432	-	54,501	111,931	7,649	-
Liberty memorial building	Jul 1, 2004	4.50%	100,000	10,000	-	10,000	-	450	-
Library	Jan 18, 2007	4.75%	275,000	119,195	-	29,000	90,195	5,662	-
Street/Pool	Dec 19, 2008	4.50%	50,000	12,000	-	12,000	-	540	-
Street/Housing	Apr 8, 2014	2.54%	550,000	-	550,000	-	550,000	-	-
				\$ 307,627	550,000	105,501	752,126	14,301	-
Revenue note:									
Sewer	Jun 14, 2004	3.00%	\$ 799,000	\$ 483,000	-	38,000	445,000	14,490	-

See accompanying independent auditors' report

City of Malvern
Note Maturities
June 30, 2014

General Obligation Notes							
Year Ended June 30,	Downtown Sidewalk Improvement		Library		Street/Housing Improvements		Total
	Issued Feb 1, 2001		Issued Jan 18, 2007		Issued Apr 8, 2014		
	Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	
2015	5.00%	\$ 57,259	4.75%	\$ 31,000	2.5440	\$ 52,000	140,259
2016	5.00%	54,672	4.75%	32,000	2.5440	53,000	139,672
2017	-	-	4.75%	27,195	2.5440	54,000	81,195
2018	-	-	-	-	2.5440	56,000	56,000
2019	-	-	-	-	2.5440	57,000	57,000
2020	-	-	-	-	2.5440	53,000	53,000
2021	-	-	-	-	2.5440	54,000	54,000
2022	-	-	-	-	2.5440	55,000	55,000
2023	-	-	-	-	2.5440	57,000	57,000
2024	-	-	-	-	2.5440	59,000	59,000
Total		\$ 111,931		\$ 90,195		\$ 550,000	\$ 752,126

Revenue Note		
Sewer		
Issued Jun 14, 2004		
Year Ended June 30,	Interest	
	Rates	Amount
2015	3.00%	\$ 39,000
2016	3.00%	40,000
2017	3.00%	41,000
2018	3.00%	42,000
2019	3.00%	44,000
2020	3.00%	45,000
2021	3.00%	46,000
2022	3.00%	48,000
2023	3.00%	49,000
2024	3.00%	51,000
Total		\$ <u>445,000</u>

See accompanying independent auditors' report

Schedule 5

City of Malvern
Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds
For the Last Ten Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Receipts										
Property tax	\$ 418,148	378,852	385,502	359,237	358,456	339,395	346,343	312,598	291,091	296,538
Tax increment financing collections	7,725	6,566	6,546	3,925	-	-	-	-	-	-
Other city tax	103,739	91,789	86,874	85,511	83,416	86,445	82,873	83,127	73,964	71,480
Licenses and permits	1,661	830	1,938	2,764	1,689	2,360	1,335	1,067	472	1,300
Use of money and property	13,452	8,614	6,592	6,504	5,514	7,442	6,816	11,983	27,374	21,749
Intergovernmental	190,048	151,824	149,903	175,094	290,171	411,173	170,953	396,241	205,055	368,599
Charges for service	129,412	118,368	114,430	110,260	106,412	98,861	97,093	95,960	99,198	83,860
Special assessments	4,861	1,627	-	-	8,657	9,414	14,708	10,284	12,731	10,666
Miscellaneous	17,169	5,626	19,526	12,668	8,815	28,993	26,191	215,279	29,583	99,245
Total	\$ 886,215	764,096	771,311	755,963	863,130	984,083	746,312	1,126,539	739,468	953,437
Disbursements										
Operating:										
Public safety	\$ 63,581	68,157	71,017	62,699	61,604	63,070	81,892	70,934	72,107	70,772
Public works	223,104	229,966	216,410	228,925	251,488	262,079	248,611	250,608	292,794	270,334
Culture and recreation	178,795	194,274	191,735	170,895	161,670	194,152	183,026	194,648	679,211	157,495
Community and economic development	102,824	9,332	8,625	10,034	649	1,696	1,382	7,159	53,382	2,646
General government	123,525	113,096	105,858	92,768	100,918	89,982	112,106	141,743	120,676	130,528
Debt service	119,802	120,077	120,259	126,358	114,350	115,918	134,601	75,750	90,268	62,150
Capital projects	-	-	-	-	184,301	230,024	-	630,666	95,475	982,106
Total	\$ 811,631	734,902	713,904	691,679	874,980	956,921	761,618	1,371,508	1,403,913	1,676,031

See accompanying independent auditors' report

City of Malvern



Diane McGrain, CPA
Jim Menard, CPA

October 16, 2014

Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Malvern, Iowa, as of and for the year ended June 30, 2014, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 16, 2014. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Malvern's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Malvern's internal control. Accordingly we do not express an opinion on the effectiveness of the City of Malvern's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control such that there is a reasonable possibility a material misstatement of the City of Malvern's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings as item I-A-14 to be a material weakness.

Continued...

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City of Malvern
Independent Auditors' Report on
Internal Control and Compliance and Other Matters

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Malvern's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Malvern's Responses to Findings

The City of Malvern's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. City of Malvern's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Malvern during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schroeder & Associates, P.C.

City of Malvern
Schedule of Findings
Year Ended June 30, 2014

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-14 Segregation of Duties

Comment – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits, posting of the cash receipts to the cash receipts journal, and reconciling are all done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. In addition, the Council should review monthly the Clerk's Report and actual to budget comparisons.

Response – We will implement additional controls.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

City of Malvern
Schedule of Findings
Year Ended June 30, 2014

Part II: Other Findings Related to Statutory Reporting:

II-A-14 Certified Budget

Disbursements during the year ended June 30, 2014 did not exceed the amounts budgeted.

II-B-14 Entertainment Expense

We noted no disbursements for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

II-C-14 Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-14 Business Transactions

We noted no business transactions between the City and City officials, or employees.

II-E-14 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-14 Council Minutes

No transactions were found that we believe should have been approved in the City Council minutes but were not.

II-G-14 Enterprise Debt

Comment – Although the City has made the necessary transfers per the sewer bond resolution and has serviced the debt, net receipts were insufficient to service operations and debt service requirements, resulting in a negative unrestricted fund balance.

Recommendation – The City should consider raising sewer rates in order to maintain the fund in sound financial condition.

Response – We will review this further.

Conclusion – Response accepted.

City of Malvern
Schedule of Findings
Year Ended June 30, 2014

Part II: Other Findings Related to Statutory Reporting Continued:

II-H-14 Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

II-I-14 Financial Condition

Comment – The Enterprise, Sewer Fund had a deficit balance of \$18,868.

Recommendation – The City should monitor the activity in this fund in order to eliminate the deficit. The City should control spending within budget limits and corresponding revenue sources.

Response – We will review this further and return this fund to a sound financial condition.

Conclusion – Response accepted.

II-J-14 Inactive Capital Project

Comment – The Capital Projects Fund for the Library Building and FEMA are inactive.

Recommendation – The City should make the appropriate transfer to close.

Response – We will do this when funds are available from the General Fund.

Conclusion – Response accepted.

II-K-14 Tax Increment Financing

Comment – The City has cash on hand of \$16,039 at June 30, 2014 in the Special Revenue, Tax Increment Financing Fund to pay for TIF debt no longer outstanding.

Recommendation – The City should consult bond counsel to determine the disposition of this issue.

The City should complete and provide TIF Certification Form 3 to the County Auditor to reduce the TIF indebtedness outstanding for the cash on hand in the Special Revenue, Tax Increment Financing Fund at June 30, 2014.

Response – We will consult bond counsel and submit TIF Certification Form 3 to the County Auditor to reduce the TIF indebtedness outstanding.

Conclusion – Response accepted.

City of Malvern
Schedule of Findings
Year Ended June 30, 2014

Part II: Other Findings Related to Statutory Reporting Continued:

II-L-14 Annual Urban Renewal Report

The annual urban renewal report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.